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INFO OCT-01 ISO-00 COME-00 EB-07 FPC-01 CIAE-00 INR-07

NSAE-00 L-02 EUR-12 TRSE-00 XMB-02 SS-15 NSC-05 /062 R

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ARA/ECP:DLACEY

EUR/SOV:RMILES

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R 112331Z APR 75

FM SECSTATE WASHDC

TO AMEMBASSY BUENOS AIRES

C O N F I D E N T I A L STATE 083862

E.O. 11652: GDS

TAGS: PFOR, ENPG, ENRO, BEXP, FIN, AR, US

SUBJECT: US PARTICIPATION IN PARANA MEDIO PROJECT

REF: BA 2230

1. DEPARTMENTS OF STATE AND COMMERCE HAVE REVIEWED REFTELS DESCRIBING POSSIBILITY FOR MAJOR US PARTICIPATION IN PARANA MEDIO HYDROELECTRIC PROJECTS WITH GREAT INTEREST. WE REGARD IT AS HIGHLY IMPORTANT TO MAKE AVAILABLE TO US FIRMS ALL POSSIBLE INFORMATION WITH RESPECT TO THE PROJECTS TO MAXIMIZE EVENTUAL US PARTICIPATION.

2. HOWEVER, REFTEL SUGGESTS TO DOC AT LEAST TWO MAJOR ISSUES WHICH SHOULD BE ADDRESSED PRIOR TO INITIATING CONTACT WITH U.S. FIRMS REGARDING THESE PROJECTS: (A) FINANCING, AND (B) PROJECT TECHNICAL AND ECONOMIC VIABILITY, PRIORITY AND TIMING. THESE SHOULD BE THOUGHT THROUGH IN DEPTH TO PERMIT COGENT ANSWERS TO QUESTIONS U.S. FIRMS WILL REQUIRE ANSWERS TO BEFORE GIVING SERIOUS CONSIDERATION
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TO NOTION OF PARTICIPATION IN THESE PROJECTS.

A. FINANCING: THE EXTENT OF U.S. INVOLVEMENT IN THESE PROJECTS IS HEAVILY DEPENDENT ON AVAILABILITY OF FINANCING. U.S. FIRMS WILL QUESTION THE SOURCE OF THESE FUNDS, PARTICULARLY SINCE LOCAL COST COMPONENT IS OVER A BILLION

DOLLARS. THEY WILL ALSO BE CONCERNED AS TO GOA PLANNED ARRANGEMENTS FOR FINANCING CORPUS AND YACIRETA AND THE IMPACT THESE WILL HAVE ON PARANA MEDIO PROJECTS. WE UNDERSTAND WORLD BANK "ONLY VAGUELY INTERESTED IN YACIRETA AND NOT AT ALL IN CORPUS." EARLY WARNING (B.A.'S A-264 OF AUGUST 19, 1964) STATED "CREDIT LINES WILL BE STRAINED CONSIDERABLY DURING THIS PERIOD." ALSO B.A. 1926 STATES "THE ARGENTINE GOVERNMENT WILL NEED EXTERNAL DOLLAR FINANCING TO EXECUTE THESE PROJECTS AS DOMESTIC SOURCES OF FINANCING OF THE MAGNITUDE REQUIRED ARE SIMPLY NOT AVAILABLE."

B. PROJECT, TECHNICAL AND ECONOMIC VIABILITY, PRIORITY AND TIMING: FIRMS WILL QUESTION PROJECTS' FEASIBILITY, THEIR LEVEL OF PRIORITY, AND REALISTIC PROJECT TIMING. CERTAIN STATEMENTS IN REFTEL SUGGEST THAT PARANA MEDIO MAY NOT HAVE A FIRM POSITION IN GOA PRIORITIES AND IS IN A MORE PRELIMINARY STAGE THAN GOA HAS STATED. REFTEL STATES, "REALISTIC ESTIMATE OF PROJECT COSTS CAN ONLY BE MADE AFTER A VERY GOOD FEASIBILITY STUDY IS CONDUCTED." FURTHERMORE, REFTEL STATES THAT "PARANA MEDIO SITES ARE FAR FROM THE MOST FAVORABLE FOR THE CONSTRUCTION OF DAMS ALONG THIS MIGHTY RIVER" AND "MUST BE CONSTRUCTED ON A BASE OF VERY SANDY MATERIAL" WHICH SOVIETS SAY THEY KNOW HOW TO OVERCOME.

3. U.S. FIRMS HAVE FOLLOWED CLOSELY THE PROGRESS OF HYDROELECTRIC PROJECT OPPORTUNITIES IN ARGENTINA AND ARE FULLY AWARE OF PREVIOUS SOVIET INVOLVEMENT IN THESE PROJECTS IN ARGENTINA AND ELSEWHERE. MOST U.S. FIRMS CITED REFTEL HAVE WORKED WITH SOVIETS DIRECTLY OR THROUGH JOINT VENTURES OR TECHNOLOGY LICENSING AGREEMENTS AND SEEM TO HAVE VERY FEW HANG-UPS REGARDING EXISTING WORKING RELATIONSHIPS. HOWEVER, WE CANNOT PREDICT TERMS AND

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CONDITIONS WHICH U.S. FIRMS WOULD REQUIRE TO ESTABLISH NECESSARY WORKING RELATIONSHIPS ON THESE PROJECTS. WE KNOW THAT AT LEAST ONE MAJOR U.S. FIRM WOULD ONLY BE INTERESTED IN THIS TYPE PROJECT IF THE LEADERSHIP ROLE IN A CONSORTIUM WERE TOTALLY U.S. (WITH USSR INVOLVEMENT SUBSIDIARLY TO THE U.S. GROUP).

4. WE REQUEST FURTHER ANALYSIS BY EMBASSY REGARDING

CONSIDERATIONS NOTED PARA 2 ABOVE PRIOR TO APPROACH HERE
TO U.S. FIRMS. U.S. FIRMS HISTORICALLY RESPOND TO COM-
PLEX PROJECT OPPORTUNITIES WHEN THEY HAVE CONFIDENCE
THAT PROJECTS ARE TECHNICALLY AND ECONOMICALLY VIABLE,
THAT CONTRACT TERMS CAN BE DEVELOPED TO SUIT THEIR
REQUIREMENTS AND THAT THEY CAN BE ASSURED OF PAYMENT FOR

THEIR SERVICES ACCORDING TO THE TERMS OF THE CONTRACT.
RESPONSE TO RECOMMENDATIONS OF REFTEL PARAGRAPH 8 (D)
WOULD NECESSARILY ALSO BE DEFERRED.

5. IN VIEW OF THE COMPLEXITY OF ISSUES AND THE NUMBER
OF UNANSWERED QUESTIONS WE AGREE WITH EMBASSY THAT,
SHOULD THE MATTER BE RAISED WITH THE SECRETARY, HIS
RESPONSE SHOULD BE LIMITED TO A GENERAL EXPRESSION OF
U.S. INTEREST IN CONTINUING U.S.-ARGENTINE COOPERATION
IN GOA'S HYDROELECTRIC DEVELOPMENT COUPLED WITH ASSUR-
ANCES THAT ALL AVAILABLE INFORMATION WILL BE TRANSMITTED
TO U.S. FIRMS TO ENCOURAGE THEIR PARTICIPATION IN PARANA
MEDIO DEVELOPMENT. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, JOINT VENTURES, HYDROELECTRIC POWER PLANTS, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Draft Date: 11 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: johnsorg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE083862
Document Source: CORE
Document Unique ID: 00
Drafter: LINGLESON/ARA/APU:RCFE
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750129-0011
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750456/aaaacagn.tel
Line Count: 135
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 BA 2230
Review Action: RELEASED, APPROVED
Review Authority: johnsorg
Review Comment: n/a
Review Content Flags:
Review Date: 02 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 SEP 2003 by BoyleJA>; APPROVED <22 DEC 2003 by johnsorg>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: US PARTICIPATION IN PARANA MEDIO PROJECT
TAGS: PFOR, ENRG, BEXP, EFIN, AR, US
To: BUENOS AIRES
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006